

SOUTHERN TIER LIBRARY SYSTEM

PAINTED POST, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 AND 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southern Tier Library System

We have audited the accompanying financial statements of Southern Tier Library System, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Southern Tier Library System has not recognized a net pension liability nor accrued a liability for postretirement benefits relating to future healthcare costs nor provided related disclosure which, in our opinion, should be recorded and disclosed to conform with accounting principles generally accepted in the United States of America (GAAP). Southern Tier Library System has not determined the impact of this departure from GAAP on the balance sheets as of December 31, 2018 and 2017, or on the statements of activities for the years ended December 31, 2018 and 2017. We believe GAAP requires these liabilities to be recorded based on an actuarial calculation and we believe this liability, if calculated, would be material to the financial statements. See also Notes F and G.

Qualified Opinion

In our opinion, except for the effects on the financial statements of not accruing a net pension liability nor a liability for postretirement benefits related to future healthcare costs as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Tier Library System as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mengel, Metzger, Barw & Co. LLP

Elmira, New York
May 30, 2019

SOUTHERN TIER LIBRARY SYSTEM

BALANCE SHEETS

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,564,942	\$ 1,305,868
Accounts receivable	116,761	89,496
Prepaid expenses	84,532	83,348
TOTAL CURRENT ASSETS	<u>1,766,235</u>	<u>1,478,712</u>
 <u>PROPERTY AND EQUIPMENT</u>		
Building	992,538	992,538
Furniture, fixtures and equipment	442,657	442,657
Internet fiber	821,053	402,898
Vehicles	129,908	119,362
	<u>2,386,156</u>	<u>1,957,455</u>
Less allowances for depreciation	<u>1,216,850</u>	<u>1,048,315</u>
	1,169,306	909,140
 <u>OTHER ASSET - Collections</u>		
	<u>-</u>	<u>-</u>
	<u>\$ 2,935,541</u>	<u>\$ 2,387,852</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 226,062	\$ 42,804
Accrued payroll and related withholdings	30,308	21,761
Accrued benefit time	102,158	87,045
Grant advance	3,598	3,598
TOTAL CURRENT LIABILITIES	<u>362,126</u>	<u>155,208</u>
 <u>NET ASSETS</u>		
Without donor restrictions:		
Operating	2,312,930	1,988,248
Board designated	116,000	100,000
	<u>2,428,930</u>	<u>2,088,248</u>
With donor restrictions	144,485	144,396
	<u>2,573,415</u>	<u>2,232,644</u>
	<u>\$ 2,935,541</u>	<u>\$ 2,387,852</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN TIER LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

	Year ended December 31,			Year ended December 31,		
	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
General library aid	\$ 997,739	\$ -	\$ 997,739	\$ 987,952	\$ -	\$ 987,952
Local services aid	95,340	-	95,340	94,404	-	94,404
Outreach aid	143,058	-	143,058	105,494	-	105,494
Other grants	-	219,223	219,223	-	260,720	260,720
Member library pass through	651,109	-	651,109	647,936	-	647,936
Member library automation fee	416,020	-	416,020	405,885	-	405,885
Telephone e-rate discount	491,864	-	491,864	273,081	-	273,081
Processing fees	12,816	-	12,816	17,990	-	17,990
Other income	63,893	-	63,893	49,856	-	49,856
Interest	1,374	-	1,374	1,175	-	1,175
Net assets released from restrictions	219,134	(219,134)	-	152,564	(152,564)	-
TOTAL SUPPORT AND REVENUE	3,092,347	89	3,092,436	2,736,337	108,156	2,844,493
Expenses:						
Program services	2,382,306	-	2,382,306	2,182,844	-	2,182,844
Management and general	369,359	-	369,359	377,142	-	377,142
TOTAL EXPENSES	2,751,665	-	2,751,665	2,559,986	-	2,559,986
CHANGE IN NET ASSETS	340,682	89	340,771	176,351	108,156	284,507
Net assets at beginning of year	2,088,248	144,396	2,232,644	1,911,897	36,240	1,948,137
NET ASSETS AT END OF YEAR	<u>\$ 2,428,930</u>	<u>\$ 144,485</u>	<u>\$ 2,573,415</u>	<u>\$ 2,088,248</u>	<u>\$ 144,396</u>	<u>\$ 2,232,644</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN TIER LIBRARY SYSTEM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

(With Comparative Totals for 2017)

	Program Services							Supporting Services	Year ended December 31,	
	Member Services	Outreach	Information Technology	Pass Through	Technical Services	Youth Services	Total Program Services	Management and General	2018	2017
								Total	Total	Total
Salaries and wages	\$ 262,766	\$ 86,237	\$ 167,350	\$ -	\$ 130,425	\$ 42,565	\$ 689,343	\$ 133,598	\$ 822,941	\$ 805,262
Payroll taxes	19,077	6,264	12,795	-	9,191	3,125	50,452	18,622	69,074	68,476
Employee benefits	69,064	31,892	55,258	-	36,255	13,135	205,604	122,164	327,768	285,937
Library materials and supplies	39,168	14,742	54,670	-	10	214	108,804	-	108,804	91,613
Office supplies	9,994	656	201	-	1,597	597	13,045	5,953	18,998	40,059
Small equipment	218	-	3,004	-	-	-	3,222	-	3,222	26,013
Building repairs and maintenance	5,884	4,707	7,061	-	2,354	1,177	21,183	2,352	23,535	21,989
Equipment repairs and maintenance	2,112	20	75,184	-	-	-	77,316	14,694	92,010	94,978
Utilities	2,621	2,097	3,145	-	1,048	524	9,435	1,049	10,484	9,833
Insurance	2,592	2,074	3,111	-	1,037	518	9,332	1,037	10,369	12,938
Vehicle expenses	23,683	-	-	-	-	-	23,683	3,994	27,677	25,104
Telephone and internet	-	-	221,081	-	-	-	221,081	-	221,081	181,778
Postage	2,110	149	118	-	-	-	2,377	907	3,284	3,450
Publicity	10,117	2,383	264	-	-	-	12,764	4,508	17,272	8,052
Travel and training	18,075	11,328	6,902	-	6,516	4,447	47,268	19,545	66,813	58,541
Professional fees	3,938	282	207	-	142	-	4,569	22,334	26,903	16,895
Depreciation expense	46,505	37,204	55,806	-	18,602	9,301	167,418	18,602	186,020	116,014
Grant expense	45,565	17,278	7,462	-	-	-	70,305	-	70,305	50,936
Member library pass through	-	-	-	645,105	-	-	645,105	-	645,105	642,118
	<u>\$ 563,489</u>	<u>\$ 217,313</u>	<u>\$ 673,619</u>	<u>\$ 645,105</u>	<u>\$ 207,177</u>	<u>\$ 75,603</u>	<u>\$ 2,382,306</u>	<u>\$ 369,359</u>	<u>\$ 2,751,665</u>	<u>\$ 2,559,986</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN TIER LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 340,771	\$ 284,507
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	186,020	116,014
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(27,265)	54,924
Prepaid expenses	(1,184)	(11,056)
Accounts payable	183,258	6,131
Accrued payroll and related withholdings	8,547	1,431
Accrued benefit time	<u>15,113</u>	<u>(3,093)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	705,260	448,858
 <u>CASH FLOWS - INVESTING ACTIVITY</u>		
Purchase of property and equipment, net of disposals	<u>(446,186)</u>	<u>(203,982)</u>
NET CASH USED FOR INVESTING ACTIVITY	<u>(446,186)</u>	<u>(203,982)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,074	244,876
Cash and cash equivalents at beginning of year	<u>1,305,868</u>	<u>1,060,992</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,564,942</u>	<u>\$ 1,305,868</u>

The accompanying notes are an integral part of the financial statements.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library System and revenue recognition

The Southern Tier Library System (the "System") provides grants and services to member libraries and reading centers in Allegany, Schuyler, Steuben, Chemung and Yates counties in New York State. The System is funded primarily through New York State grants and records revenue as services are rendered.

Other grants are recorded as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents

The System maintains its cash and cash equivalents in one financial institution, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances, which are fully collateralized by securities, aggregate approximately \$1,329,000 at December 31, 2018. The System has not experienced any losses in such accounts and believes it is not exposed to any significant risk in cash and cash equivalents.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management reviews these amounts periodically to determine if any receivables will potentially be uncollectible. After all attempts to collect a receivable have failed, the receivable is written off.

Property and equipment

Property and equipment are stated on the basis of cost if purchased or, if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to thirty years.

Expenditures for renewals and betterments are capitalized while expenditures for repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in activities.

Collections

Books, periodicals and other library materials are not capitalized. Purchases of these items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributions of these items are not reflected in the financial statements.

Grant advance

Grant advance represents conditional amounts received from a funding source. The System recognizes revenue when the conditions are substantially met.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2018 AND 2017

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Net assets

Net assets, revenue, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions:

Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions:

Net assets subject to donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional allocation of expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Tax exempt status

The System is a non-profit organization exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code.

The System has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The System files a Form 990 tax return in the U.S. federal jurisdiction and is not required to file in New York State. With few exceptions, as of December 31, 2018, the System would not be subject to U.S. federal income tax examinations by tax authorities for years ended prior to December 31, 2015. The tax returns for the years ended December 31, 2015 through December 31, 2018 are still subject to potential audit by the IRS. Management of the System believes it has no material uncertain tax positions and, accordingly has not recognized any liability for unrecognized tax benefits.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2018 AND 2017

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2016-14 “*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*”. ASU 2016-14 includes many changes affecting the presentation and accounting for the System’s financial statements, including:

- Presenting on the face of the balance sheet amounts for two classes of net assets at the end of the year, rather than for the currently required three classes. That is, to report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets.
- Presenting on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes, as well as the currently required amount of the change in total net assets for the year.
- Requiring the presentation of expenses by both natural and functional classification, as well as disclosing the methods used to allocate costs among program and support functions;
- Disclosing amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the year;
- Requiring qualitative information that communicates how the System manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date;
- Requiring quantitative, as well as additional qualitative information, that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year of that date.

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for the statement of functional expenses and disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in total net assets.

New accounting pronouncements

Revenue from contracts with customers

In May 2014, FASB issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The System is currently evaluating the provisions of this standard to determine the impact the new standard will have on the System’s financial position or results of operations.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2018 AND 2017

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The System is currently evaluating the provisions of this standard to determine the impact the new standard will have on the System’s financial position or results of operations.

Subsequent events

The System has conducted an evaluation of potential subsequent events occurring after the balance sheet date through May 30, 2019, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 1,564,942
Accounts receivable	<u>116,761</u>
	<u>\$ 1,681,703</u>

The board has designated \$116,000 as capital reserves. Although the System does not intend to spend from those board designated funds for general expenditures, these amounts could be made available if necessary.

NOTE C: USE OF LAND

The System’s building is situated on land that is leased for thirty years through May 2031 from Steuben-Allegany Board of Cooperative Education Services (BOCES) for a total sum of one dollar. The lease agreement includes renewal options and purchase options for the lessor to sell land to the lessee for one dollar and the lessee to sell the building to the lessor for one dollar. Due to the nature of the leasing arrangement, the System has not determined a fair market value of the use of the land, and accordingly has not recorded the related contribution revenue or lease expense.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2018 AND 2017

NOTE D: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows:

	December 31,	
	<u>2018</u>	<u>2017</u>
Undesignated	\$ 1,143,624	\$ 1,079,108
Investment in property and equipment	1,169,306	909,140
Board designated capital reserve	<u>116,000</u>	<u>100,000</u>
	<u>\$ 2,428,930</u>	<u>\$ 2,088,248</u>

NOTE E: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	December 31,	
	<u>2018</u>	<u>2017</u>
Internet fiber capital expenditures	\$ 114,673	\$ 104,257
Family and adult literacy	23,228	24,616
Other	<u>6,584</u>	<u>15,523</u>
	<u>\$ 144,485</u>	<u>\$ 144,396</u>

NOTE F: RETIREMENT BENEFITS

Substantially all employees of the System are eligible to participate in the New York State Employees' Retirement System on a contributory basis. The System has not recorded a liability relating to the difference between the actuarially computed value of vested benefits and the Plan's assets as the information is not available for entities that do not present financial statements under Governmental Accounting Standards.

The System makes pension payments to the New York State Employees' Retirement System based on the salaries of participating employees multiplied by the most recent rates available from the New York State Employees' Retirement System. The pension contribution for the years ended December 31, 2018 and 2017 amounted to \$91,550 and \$90,031 respectively.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2018 AND 2017

NOTE G: OTHER POSTRETIREMENT BENEFIT

The System pays a portion of health insurance premiums for certain retirees in accordance with a contract with the staff organization. The current contract expires in 2021. Effective July 2015, no new employees are eligible for this benefit. The System is currently paying a total of \$5,114 per month for existing retirees. The System has not recorded a liability for the postretirement benefits and has not determined the impact on this departure from GAAP on the balance sheets as of December 31, 2018 and 2017, or on the statements of activities for the years then ended.

NOTE H: COMMITMENTS

The System has lease agreements for access to internet fiber connections for the System and certain member libraries with total current monthly lease payments of \$8,595 through July 2023. Lease expense for the years ended December 31, 2018 and 2017 amounted to \$96,945 and \$67,913, respectively. The future minimum lease payments as of December 31, 2018 on these lease agreements are summarized as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2019	\$ 103,140
2020	103,140
2021	74,221
2022	30,993
2023	<u>3,500</u>
	<u>\$ 311,494</u>

NOTE I: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to program and supporting functions. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses which are allocated based on time and effort, as well as facility costs and depreciation which are allocated on a square footage basis.